

FINAL REPORT

**THE TRANSITION TO A MARKET-BASED HOUSING SECTOR
IN ROMANIA**

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ABSTRACT

THE TRANSITION TO A MARKET-BASED HOUSING SECTOR IN ROMANIA by Francis Conway, Harold Katsura, Ileana Budisteanu and Ileana Pascal, January 1995 (Project 06283/107).

Since the people's revolt of December 1989, Romania's housing sector has undergone a dramatic transformation marked by rapid privatization and a reduced government role in the production and allocation of housing. The huge transfer of wealth that accompanied housing privatization has sparked the development of a private housing market. The report provides an overview of current housing conditions in Romania, with more detailed information on the situation in three cities - Bucharest, Braşov and Oradea. It goes on to suggest that efforts to strengthen and support the private housing market and to put in place sensible public housing assistance programs are justified at this time because they will produce immediate, real benefits in three key areas:

- *The housing sector may offer a unique opportunity for private citizens to act independently to improve their own well being without having to rely on the state.*
- *Housing assistance is a necessary component of the social safety net that will ease the transition to a market-based economy.*
- *By facilitating labor mobility, the housing sector will improve the efficiency of the labor market.*

In this context, the report identifies the priority needs of the housing sector in Romania today, as:

- *Maintaining and improving the existing housing stock*
- *Facilitating private residential real estate transactions*
- *Expanding access to the housing market*
- *Defining the role of government*

Table of Contents

Table of Contents	<i>i</i>
EXECUTIVE SUMMARY	<i>iii</i>
1. OVERVIEW	1
Current Housing Conditions	1
The Development of a Housing Market	6
The Government Role	9
2. BUCHAREST	10
Housing Stock	10
Public Housing	10
Private Housing Market	13
3. BRAȘOV	16
Housing Stock	16
Public Housing	17
Private Housing Market	18
4. ORADEA	19
Housing Stock	19
Public Housing	20
Private Housing Market	22
Utility Services	24
Rental Housing	24
5. SIGNIFICANCE OF THE HOUSING SECTOR	25
Improved Well Being	25
Social Safety Net	27
Labor Mobility	29
6. PRIORITY NEEDS IN THE HOUSING SECTOR	30
Maintaining and Improving the Existing Housing Stock	30
Facilitating Private Residential Real Estate Transactions	31
Expanding Access to the Housing Market	31
Defining the Role of Government	34

REFERENCES	35
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ANNEXES

I. EXISTING AND PROPOSED LEGISLATION IN ROMANIA RELATED TO THE HOUSING SECTOR	36
II. DONOR ASSISTANCE TO THE HOUSING SECTOR IN ROMANIA ..	41
III. RESIDENTIAL PROPERTY AND LAND PRICES IN BUCHAREST ...	43

EXECUTIVE SUMMARY

Current Status of the Housing Sector

Overview Since the people's revolt of December 1989, Romania's housing sector has undergone a dramatic transformation marked by rapid privatization and a reduced government role in the production and allocation of housing. Although the quality varies tremendously, Romania's housing stock, in a strictly numerical sense, appears to be adequate for the near future. In 1992, despite a dramatic drop in housing production from pre-revolution levels, the number of dwellings (7.66 million) exceeded the number of households (7.32 million) by about 350,000 units. Doubling up among unrelated households is rare. Only about one percent of all households shared their units with one or more households in 1992. The average household size in 1992 was 3.1 persons, down slightly from 3.2 persons in 1977. Housing consumption rose between 1977 and 1992, with the average floor space per person increasing from 8.9 square meters to 11.5 square meters. Overcrowding is not a problem for most households.

These numbers may not capture the housing problems of some subgroups including, for example, out-of-town job seekers and extended families containing young couples or older children who are unable to afford their own homes. Romania experienced a modest baby boom in the second half of the 1960's due to a birth control ban. The population in this cohort, many of whom are now in their late 20's, may be a source of latent demand for housing. The overall population, however, has declined in recent years due to a net natural population decrease and emigration. The population was about 23 million in 1992 of which 54 percent resided in urban areas--up from 44 percent in 1977. Additional housing demand may occur in some urban areas now that residency restrictions have been relaxed. Economic restructuring is likely to fuel internal migration by people who have lost their jobs, although it is unclear whether this will push people towards or away from cities.

By far, the biggest housing problem facing households is the operation and maintenance of the former public housing stock. The often large and unwieldy tenant associations are just now realizing that the state cannot be counted on to solve their repair and maintenance problems. They are struggling to raise money to pay for services in an environment in which people are not accustomed to paying. There are no private residential property management firms in the country.

Although the pace of industrial privatization has been slow, the government has rapidly transferred the vast majority of the public housing stock to private hands. Even under communist rule, the country had a sizeable number of homeowners; in 1977, about 97 percent of the rural stock and 55 percent of the urban stock was in private ownership. These shares had become 96 percent and 63 percent, respectively, in 1992. By late 1994, only 347,000 dwellings remained in the public housing stock following a massive privatization campaign in which units were offered to sitting tenants on very favorable terms. An additional 241,000 units are awaiting resolution of restitution claims.

The Housing Market *The huge transfer of wealth that accompanied housing privatization has sparked the development of a private housing market. The number of sales transactions has gone from 38,775 in 1989 to 226,399 in 1993. While it is difficult to gauge its magnitude, partly because tax evasion has turned it into a grey market activity, a rental market has also developed. Brokers serving both the for sale and rental markets have appeared, and newspapers and television broadcasts regularly carry real estate advertisements. A group of brokers in Bucharest have recently formed a real estate association.*

A market-based housing finance system does not exist, and is not likely to develop in the near future. The major banks are still owned by the state, and housing credit has been largely confined to concessional loans to bank employees and to participants in government programs. Inflation, high interest rates, low incomes, high construction costs, and a preponderance of short term liabilities make lending for housing unattractive to banks.

In the absence of a market-based housing finance system, households have been self-financing most new construction on an installment basis. Existing homes are typically purchased using a single cash payment. In 1993, two-thirds of all housing production was financed by private sources, whereas in 1989 only five percent was privately funded. With the decline of state-funded housing, the building industry has shifted to upscale housing and commercial projects to survive. A large share of new private housing construction consists of luxury apartment complexes and villas, many of which are being built with the assistance of foreign investors. The state is continuing to fund the completion of numerous buildings scattered around the country which were unfinished at the time of the revolution. An emerging problem is the high cost of new construction relative to the prices of existing units; a new unit can cost two to three times what an existing unit with similar features costs. High costs may, in part, be due to the use of outdated construction technology. In addition, jurisdictional and titling problems with land on the periphery of cities are driving land prices upwards. Inadequate infrastructure capacity threatens both the existing and future housing supply in some cities.

Significance of the Housing Sector

Efforts to strengthen and support the private housing market and to put in place sensible public housing assistance programs are justified at this time because they will produce immediate, real benefits in three key areas:

Improved well being *Housing represents a considerable accumulation of wealth in the hands of households in Romania. As the country moves to a market-based housing sector, this wealth provides a unique opportunity for private citizens to act independently to improve their own well being without having to rely on the state.*

Social Safety Net *Some lower-income homeowners may be having difficulties meeting monthly payments for utility services. The housing situation is even more difficult for those who are not already homeowners or for those homeowners who lose their units. The options available to these groups in need are limited. Public housing programs are in disarray. The private housing market of lower-priced units for sale or for rent is just beginning to develop.*

In the short run, housing assistance should be an important component of the social safety net.

Labor mobility *As Romania makes the hard but inevitable choices to restructure its economy to become competitive, many persons will need to find new employment in a different industry or different location or both. The ability of the housing market to accommodate these shifts will have a significant impact on the mobility of labor.*

Priority needs in the housing sector

Maintaining and improving the existing housing stock *The highest priority is to arrest the deterioration of the existing housing stock, particularly in blocks of apartments.*

Facilitating private residential real estate transactions *Romania needs a viable and agile private real estate market if households are to realize fully the opportunity for improved well being that is inherent in the housing they own.*

Expanding access to the housing market *The viability of the emerging market-based housing sector in Romania depends to a significant degree on expanding the current supply of affordable housing for sale or for rent.*

Defining the role of government *The government might want to concentrate at this point on creating the enabling framework for the new and evolving housing sector.*

1. OVERVIEW

Since the people's revolt of December 1989, Romania's housing sector has undergone a dramatic transformation marked by rapid privatization and a reduced government role in the production and allocation of housing. Over the last five years, activity in this sector has been shaped by a flurry of legislative reforms and policy initiatives related to land and property rights, administrative decentralization, and the restructuring of the building industry. Several important laws are presently in draft form including the housing law, the cadastral law, and the urban and regional planning law, making this an ideal time to review the status of the sector and to identify possible technical assistance.

Current Housing Conditions The supply of housing, as measured by several conventional indicators, appears to be adequate for much of the population. In 1992, there were 7,664,262 dwelling units of which 7,186,747 were occupied, which implies the vacancy rate was about 6.2 percent. The number of households (7,317,563) was somewhat larger than the number of occupied units because some households share quarters. However, only about one percent of all occupied units contained more than one household. The average household size fell slightly between 1977 and 1992 from 3.2 to 3.1 persons.¹

By most measures, there is not a severe overcrowding problem. The number of persons per room fell from 1.53 to 1.21 between 1977 and 1992. Based on a two persons-per-room adequacy standard, only about one-tenth of all occupied units were overcrowded in 1992 (See Table 1). Roughly half of these overcrowded units were two-room units.² Persons living in one-room units are the most likely to be overcrowded; about 29 percent of one-room units were occupied by more than two persons. In comparison, about 13 percent of two-room units, 4 percent of three-room units, and just 1 percent of 4-room units had more than two persons-per-room. Although one-room units were the most likely to be overcrowded, they made up only 12.5 percent of the occupied stock. Furthermore, 85 percent of one-room units were occupied by three or fewer persons and roughly 45 percent contained only one person. Housing consumption rose between 1977 and 1992, with the average floor space per person increasing from 8.9 square meters to 11.5 square meters. Over this same period, the average dwelling size rose from 29.6 to 33.6 square meters.

¹ Unless otherwise noted, figures for 1977 and 1992 are from the census.

² This overcrowding measure is sensitive to the applied standard. For example, using an overcrowding standard of one person per room, about half of all occupied units would be overcrowded. However, if one modified this standard by reclassifying two persons in a one-room unit, three persons in a two-room unit, and four persons in a three-room unit, as uncrowded, about 30 percent of occupied units would be considered overcrowded. About three-fourths of all occupied units are two- or three-room units. Approximately 70 percent of two-room units house three persons or less and close to 80 percent of three-room units contain four persons or less.

Population growth has not been a major factor behind housing demand. Romania's population increased only 5.6 percent between 1977 and 1992, from 21.6 million to 22.8 million. In addition, the population has declined during the 1990s due to a net natural population decrease and emigration.³ On the other hand, the urban share of the population grew from 43.6 percent in 1977 to 54.4 percent in 1992. Much of this was centrally-planned urban growth that was accommodated by high-rise multifamily construction. The number of residential structures actually declined by over four percent between 1977 and 1992 as single-family structures were razed and replaced by apartment blocks. The relaxation of residency restrictions may increase housing demand in some urban areas. In addition, unemployment due to economic restructuring is certain to stimulate internal migration, but it is unclear whether this will push people towards or away from cities. Rural movements are possible because many urban residents have family or economic ties to the countryside.

In addition to job seekers, a subgroup with acute housing needs is made up of extended families containing young couples or older children who are unable to afford their own homes. This problem is constantly raised by politicians and policy makers and is mentioned in nearly every document concerning housing problems in Romania. While there is ample evidence that this problem exists, the dimensions of this problem are unknown. Romania experienced a significant baby boom in the second half of the 1960's due to a state-enforced birth control ban. The population in this cohort, many of whom are now in their late 20's, may be a source of latent demand for housing. Although one might expect the opposite given the baby boom, the marriage rate, expressed as the number of marriages per 1000 persons, has declined in each year since 1990. Some studies have suggested that economic insecurity and rising housing costs are major factors behind the falling marriage rate.⁴ While there is a demographic dimension to the young couple problem, the seriousness of the problem is derived from the reduction in subsidies that these households face. Although it is characterized as a "young couple" problem, all newly forming households must confront higher housing costs.

Although the housing stock, in a numerical sense, appears adequate, a large share of it suffers from a combination of poor construction and poor maintenance. This quality problem is perhaps the greatest for households occupying multifamily structures.⁵ One estimate places the number of apartment units needing heating and sanitation upgrading at around 3 million. An additional 250,000 units have earthquake damage, and require repair or replacement. Tenant associations are generally able to provide rudimentary maintenance, but many lack the managerial

³ The natural increase rate (the difference between the gross birth and death rates per thousand population) was negative in 1992 and 1993 (Zamfir, Pop, Zamfir; 1994, p. 19), and was negative as of the first semester of 1994 (CNPS; 1994, p. IX). Firm data on emigration is not available, in part because of illegal emigration, but the highest amount of legal emigration occurred in 1990 (Zamfir, Pop, Zamfir; 1994, pp. 19-20).

⁴ See Zamfir, Pop, and Zamfir (1994), pp. 15-16 for a more detailed discussion of marriage and fertility rates.

⁵ Multifamily structures contain about 39 percent of all dwellings. About 42 percent of all dwellings and 58 percent of urban dwellings are twenty years old or less.

skills and tenant cooperation required to deal with capital improvements and the maintenance of certain common areas.⁶

The tenure of households is not known at this time. Unfortunately, while the census ascertains the ownership status of a particular dwelling, it does not collect information on the tenure status of the household being interviewed. Thus, we do not know how many units are owner-occupied, renter-occupied (other than state-owned units), or occupied rent-free. A private rental market has developed, but it is difficult to gauge its magnitude. Obtaining reliable information on the extent of the rental market is complicated by the fact that renting is often a grey market activity in which a landlord has an incentive to underreport or not report rental income because of taxes.

While the tenure picture remains unclear, property ownership has increased dramatically, particularly in urban areas. Beginning in 1990, the government rapidly sold the public housing stock to sitting tenants, who responded favorably to the government's offer of long-term loans with heavily subsidized interest rates.⁷ It is important to note that a tradition of private ownership was maintained even under communist rule; about 97 percent of the rural stock and 55 percent of the urban stock was in private ownership in 1977. These shares had become 96 percent and 63 percent, respectively, in 1992. By late 1994, only 347,000 state-built units remained in the public housing stock. Some of this housing is in poor condition, which has encouraged some people, who hope to be allocated a better unit, to delay purchasing their units.

The disposal of nationalized units is a problem that may take a long time to resolve. As of late 1994, there were 241,068 housing restitution claims filed with the government.⁸ The nationalized housing stock contains some of the best and worst housing in the country. Many units came from the older stock which is often centrally-located and outwardly physically attractive. A large share of the older stock, however, needs a high degree of rehabilitation, and in some regions, earthquake damage repair work. In addition, many large structures which used to house only one or a few families have been subdivided to house additional families, many of which are very poor. In sharp contrast, some of the finest properties in the country are nationalized and many of these are leased to wealthy clients (including international organizations). Because some of the most politically powerful interests are likely to be adversely affected - the poor and the wealthy - resolving restitution claims is a difficult task.

A combination of factors is believed to be responsible for a decrease in housing affordability since 1989. Subsidy reductions, price liberalization, and privatization have

⁶ Tenant associations include owners, and are sometimes quite large. For example, in one area of Braşov, 6,000 units were represented by eight tenant associations. For an overview of the structure, current operations, and problems of tenant associations in Braşov, see Wolfe (1994a, 1994b).

⁷ Subsequent inflation has essentially wiped out the debt burden of households who received these loans.

⁸ These nationalized units are in addition to the 347,000 state-built units in the public housing stock.

encouraged the development of a housing market based on market prices. Prices and rents may have received an additional push from speculative buying, inflation hedge purchases, and the removal of population restrictions on urban areas. One study estimated that the price of a three-room flat has tripled, going from five times of a "young man's salary" in the 1970s to fifteen times by late 1993 (Zamfir, Pop, Zamfir; 1994, p.15). A modest three-room unit in Bucharest in November 1994 roughly went for US\$10-15,000. A typical two-room unfurnished apartment might rent for about US\$100-150 in July 1994. To put these prices into perspective, the median gross monthly wage in July 1994 was 185,453 lei (about US\$104) for an individual (CNPS; 1994, p.15). Real wages have been falling during the 1990s and stood at about 63 percent of 1989 levels in 1993.⁹

All households have not been equally hurt by rising housing costs in recent years. The significance of rising costs depends on a household's individual situation. For example, in 1993, renters who lived in state-owned property and paid extremely low rents received protection from rent increases for an additional five years. Homeowners who borrowed to purchase their homes, including many who privatized their units, have had their debts wiped out by inflation. Given the low prices paid and the reestablishment of the right to freely engage in property transactions in 1991, many homeowners have garnered large potential capital gains. On the other hand, newly-formed and other households, who do not own homes and are unlikely to ever be allocated a unit from the government, must cope with market rents and purchase prices.

Information on utility costs is hard to sort out. Some studies suggest that charges for communal services (e.g., water supply, heat, waste disposal) are currently equivalent to twenty percent or more of typical household's income.¹⁰ Although utility costs have risen sharply in nominal terms during the last five years, it is not clear that they have risen in real terms. For example, an index of the relative price of fuel and power fell from a value of 100.0 in 1989 to 36.5 in 1992, before rebounding to 65.6 in 1993. The increase in 1993 reflects the phasing out of subsidies for communal services that took place in May of that year. An index of the relative price of gross rent and water charges fell by about 50 percent during this same period.¹¹ However, as noted above, real wages also fell by nearly 40 percent during this period, making a relative gain in the financial well-being of households unlikely. Utility costs almost certainly took a larger slice of household budgets in 1994 as a result of energy price adjustments that took effect in April.¹²

⁹ Zamfir, Pop, and Zamfir (1994), table 3, p. 85.

¹⁰ See Wolfe (1994a) p. 8 and MPW (1994) p. 3.

¹¹ Zamfir, Pop, and Zamfir (1994), tables 10 and 11, pp. 87-88.

¹² See EIU (1994), p.22. The adjustments affected petrol, natural gas, and electricity prices. Gasoline prices rose almost 13 percent while electricity prices increased by 42 percent.

The reduction in utility subsidies has drawn attention to the inefficiencies of the *regie autonome* responsible for providing services to residential customers.¹³ The heating and hot water *regie autonome*, in particular, has been criticized by tenant associations for a lack of metering and for charging households for waste caused by system leakages. Some associations have even withheld payments to protest what they deem to be excessive charges. Metering, however, can only improve the measurement of consumption. While it can encourage households to reduce their usage and produce lower bills in the short run, metering does nothing to reduce the fixed costs of producing and delivering the heat or hot water. The full production cost must ultimately be borne by the consumer regardless of how inefficient the producer is or the service will not be provided.¹⁴

The Development of a Housing Market The huge transfer of wealth that accompanied housing privatization has contributed to the development of a private housing market. The number of sales transactions has gone from 38,775 in 1989 to 226,399 in 1993. A private rental market of unknown size has also established itself. Brokers serving both the for sale and rental markets have appeared, and newspapers and television broadcasts routinely carry real estate advertisements. Some newspapers in Bucharest feature sections that present typical market rents and purchase prices for different parts of the city. The market is clearly differentiating properties based on locational and other factors. Prices are often stated and transacted in hard currencies (usually U.S. dollars).

In addition to the growth of the privately owned stock, other factors may be contributing to the growing number of real estate transactions. Investing in housing has been a way for households to protect their savings from inflation. The elimination of laws which interfered with the ability of individuals to acquire and dispose of property has also probably stimulated housing demand. For example, a person could not own more than one dwelling or own a dwelling in a town other than the one in which they lived. If a person owned a home and inherited a second dwelling, they had to sell one of them within one year. Finally, when someone bought a home, only 250 square meters could become the purchaser's property; the remaining land became state property.

There is no market-based housing finance system to support the growing private housing market activity. Such a system is not likely to develop in the near future. The major banks are still owned by the state, and housing credit has been largely confined to concessional loans to bank employees and to participants in government programs. Newly established foreign banks are likely to focus on wholesale banking rather than retail banking. Inflation, high interest rates, low incomes, high construction costs, and a preponderance of short term liabilities make lending for housing unattractive to banks.

¹³ *Regie autonome* are large semi-autonomous state companies engaged in a broad range of economic activities. In early 1994, there were 79 such companies, of which as many as 72 could become candidates for privatization (EIU; 1994, p.23).

¹⁴ Wolfe (1994a), pp. 7-9.

Any attempt by the donor community to assist with the development of a market-based housing finance system will have to be based on a long-term approach. Romania's banking sector has been relatively slow to embrace reforms. Among the many hurdles to overcome is the attitude of some bankers who still view housing finance as a role of the state sector. This is related to the common belief among bankers that housing is non-productive social capital.

There are barriers to overcome on the consumer side as well, since households are unfamiliar with conventional means of borrowing for home purchases. This became evident during a recent survey in Brasov, in which households demonstrated confusion over whether or not they had a housing loan, who they borrowed from, how much they borrowed, and how much they still owed. This confusion apparently is the result of the government's system for channeling housing credit from two state financial institutions through the workplace. Most households knew the price of their units and had a rough idea of their last installment (which was deducted from their paychecks), but did not know much else.¹⁵

According to EIU (1994), the central bank (the National Bank of Romania) had remarkable success in 1994 in containing inflation through a tight monetary policy. Commercial banks had to compete for individuals' deposits which forced them to offer interest rates that were positive in real terms. Nevertheless, the macroeconomic environment is unstable and it is unclear whether recent improvements initiated by the central bank can be sustained without the implementation of more basic reforms.

In the absence of a market-based housing finance system, households have been self-financing most new construction on an installment basis. Existing homes are typically purchased using a single cash payment. In 1993, two-thirds of all housing production was financed by private sources, whereas in 1989 only five percent was privately funded. Recent building permit data show that while new construction activity has been low, the volume of additions and improvements to existing units has been relatively large.

With the decline of state-funded housing, the building industry has shifted to upscale housing and commercial projects to survive. A large share of new private housing construction consists of luxury apartment complexes and villas, many of which are being built with the assistance of foreign investors.

The state is continuing to fund the completion of numerous buildings scattered around the country which were unfinished at the time of the revolution. Although these unfinished apartment buildings are a highly visible feature of the urban landscape, especially in Bucharest, most officials do not view them as a major problem because they expect them to be completed soon.¹⁶ In 1993, the central government placed 14 billion lei into a special account for completing these units; in 1994, it expected to contribute an additional 75 billion lei to this account (an amount equivalent to less than one percent of the budget). Most of the unfinished units have already been allocated to households or have been reserved for needy groups such as

¹⁵ Memorandum from Informatix (Romania) Ltd., dated February 8, 1995.

¹⁶ Some officials are concerned that they will not be able to afford the supporting infrastructure.

young couples. The remainder of the unfinished structures have been publicly auctioned to generate additional funds for completing units. Some successful bidders have converted the properties into commercial space.

The construction industry is still dominated directly or indirectly by state-owned firms. Even where numerous private or joint-stock construction companies have appeared, state-owned firms may control key building supplies or be the only source of heavy equipment. It is not unusual for private firms to lease equipment from state-owned firms. Many state-owned firms would like to become privately owned; however, disputes over company assets have slowed the privatization process. Despite the lack of a perfectly competitive market, builders do not generally have a problem getting the building materials they need. The demand for materials, however, has been modest due to the recession in the building industry.

An emerging problem is the high cost of new construction relative to the prices of existing units; a new unit can cost two to three times what an existing unit with similar features costs. One would not expect such a large price differential to persist in the long run, but it is certainly plausible in the short run. It is consistent with Romania's current building situation: in such an environment, one would not expect to find developers taking on new construction except in profitable niche markets.

Rising land costs have contributed to higher construction costs. Jurisdictional and titling problems with land on the periphery of some cities are driving land prices upwards. Inflexible land use rules, including rules governing the conversion of agricultural land, appear to unnecessarily restrain the amount of land available for residential purposes. Also, in some cities, inadequate infrastructure capacity raises the cost of servicing land.

The Government Role In 1992, the government adopted the Guiding Principles of the National Strategy for Housing (SNL), which stated broad objectives with respect to establishing market mechanisms and providing a social safety net for disadvantaged households. The major goals include: (a) the maintenance and rehabilitation of the existing housing stock; (b) the development of a legal and institutional framework for a housing finance system; (c) the improvement of housing management; (d) the development of a private rental sector; (e) the construction of new housing; (f) the completion of unfinished units; (g) the development of infrastructure.

The government is currently considering many important pieces of legislation that will have a significant impact on the housing sector. These draft laws include: (1) the law for cadastre and property registry; (2) the law on the public and private patrimony of the administrative units; (3) the law on central and local public finance; (4) the law for the settling of the legal status of dwellings transferred into the ownership of the state; (5) the regional and urban planning law; and (6) the housing law. The proposed housing law echoes the sentiments of many local officials by emphasizing a strong role for government in providing social housing

for disadvantaged groups. It also defines tenant-landlord relationships and establishes the legal framework for condominium associations.¹⁷

The government has received a variety of international technical and financial assistance related to housing. Direct housing assistance has been provided by the National Centre for Human Settlements (NCHS), which has sponsored seminars and workshops on a variety of housing topics, and by USAID, which has a condominium pilot project underway in Braşov. Housing-related assistance includes public administration technical assistance (especially the strengthening of local administrations) provided by USAID, the British Council, PHARE, the World Bank, and the NCHS. In the coming year, the World Bank is expected to fund a cadastre and land registration system project and the EBRD will finance investments in water supply, sewage, and metering in five cities.¹⁸

¹⁷ Annex I contains a brief description of these draft laws and of other laws affecting the housing sector.

¹⁸ A more detailed description of these assistance programs is provided in Annex II.

2. BUCHAREST

The recent experience and current conditions in the housing sector in Bucharest -the capital of Romania - confirm and serve to illustrate the national trends described in the preceding section.

Housing Stock In 1992, at the time of the last census, Bucharest had 2,067,545 inhabitants.¹⁹ As Table 2 shows, the general housing conditions in Bucharest follow the national patterns described in the previous section of this report.

Table 2 Housing Stock Bucharest			
	Country Total	Bucharest	% of Country
Households	7,317,563	747,165	10.2%
Dwellings	7,664,262	760,751	9.9%
Dwellings/ Household	1.04	1.01	n/a
Floor area/ person	11.5 m	12.9 m	n/a
Average size	34.2 m	34.3 m	n/a
Table prepared by the Urban Institute with data from the 1992 census.			

Public Housing During the 1970's and 80's, production of state subsidized housing in Bucharest averaged 15,000 to 20,000 units per year. All funding came from the state budget. The municipality acted as administrator of this program on behalf of the state.²⁰ At its peak,

¹⁹ City planning officials estimate that there is a transient population of students, businessmen, visitors and relatives of as many as 400-500,000 additional persons in the city at any one time. Up to 1990, there also was a sizeable population of "unofficial" residents. Bucharest was one of several "closed" cities in Romania. Officially, the government allowed only persons who could show that they had both a job and a place to live to move to the city. In fact, there were many persons living and working in Bucharest without an official residence permit. In the first three months following the abrogation of the law restricting residence in early 1990, over 240,000 persons registered as residents of Bucharest. They are now counted in the 1992 population figure given above.

²⁰ Traditionally, Bucharest has had a general city council and mayor and sectoral councils and mayors. In the 19th century there were five sectors designated by colors (red, green, etc...). There were four sectors in the early 1900's and as many as eight from the 1950's to the 1970's. Today there are six sectors, designated by numbers. The mayor general, the municipal council and all sector mayors and councils are elected to office. The municipality has overall responsibility for managing the housing

the municipality of Bucharest owned 39 construction companies employing over 35,000 persons. The production record for one year for Bucharest was set in 1978 - 79, when the municipality completed 33,000 units. Much of the new construction replaced existing, single-family housing. Entire neighborhoods of Bucharest were demolished and replaced with blocks of flats.²¹

Funding from the state for the housing program ended suddenly in 1989 with the change in regime. At that time, some 19,000 units remained in various stages of construction in Bucharest. Of these, 11,200 had been allocated or were in process of being allocated. The municipality took over responsibility for completing the construction of these units. The municipality put the remaining 7,800 unfinished units out for bids. Bidders included chambers of commerce and industries, banks, insurance companies, joint ventures (including foreign investors) and associations representing families interested in occupying the units. Terms of the deals have varied. In some cases, the municipality received payment outright for the land and improvements. In others the municipality retained ownership of the land and leased it to the developer. In yet others, the municipality retained an interest in the development accepting payment in the form of finished apartments or a share in the new development.

Financing also has varied. Where the city agreed to allow conversion of the unfinished residential units to office and commercial space, private investors financed the construction.²² In the case of residential units, the pattern in Bucharest is the same as in the rest of the country. The prospective occupants have been responsible for financing the completion of their own unit. The buyer pays a proportional share of the sales price as construction advances. This process

program. In the past, firms owned by the municipality did all the construction and managed the maintenance and operation of the completed units. The city no longer builds housing. It still manages a dwindling stock of public housing. The sectoral city halls maintain the lists of persons waiting for housing and allocate the completed units.

²¹ This is dramatically evident in the area surrounding the "palace of the people" which Ceaucescu built as a monument to himself. The massive building reportedly is the second largest in area in the world after the U.S. Pentagon. An avenue three kilometers long, flanked by majestic new buildings leads up to the palace. Some 30,000 workers and 20,000 soldiers participated in the construction. The palace and most of the buildings close to it on the avenue are finished. The buildings farther away and those not fronting on the avenue are in different stages of completion. The development of this project required the destruction of a good part of old Bucharest. Portions of these neighborhoods slated for demolition today include only the abandoned shells of vacated single-family homes, shops and other structures. Some units survived and remain occupied and in use. This pattern of unfinished structures and neighborhoods in transition is repeated on a less grandiose scale throughout Bucharest.

²² City officials described the new World Trade Center as a good example of the variety of terms and methods of financing they employed in working with private investors. They indicated that the project was developed as a joint venture between the city and a private firm funded by Rumanian and foreign capital. The firm provided the financing for the project. The city agreed to improve the off site infrastructure as its part of the deal. The city retained title to the five hectare site, leasing the land to the World Trade Center at \$50 per square meter per year. It also charged the Center substantial fees for connecting to the infrastructure. According to the city officials, the lease income on the land and the connection fees will pay for the off site infrastructure. And, the city remains a shareholder in a prime new commercial and residential development.

only worked well in the early years after 1989. Since then, high inflation and stagnant wages have made it impossible for most families to keep up with the price increases. As described in the previous section, in 1993, the national government allocated funds to help complete the construction. The families will repay these funds on highly favorable terms. The municipality of Bucharest has limited its financing to complete the units only to the income it has received from the sale of the units. City officials view infrastructure as a much higher priority. Funds from the municipality's own budget have been used only to finance off site infrastructure for the developments.

Table 3 Completion of Unfinished Units Bucharest					
Year	1990	1991	1992	1993	1994
Units completed	6,421	2,936	2,106	4,006	1,819
Units in process	24,077	21,147	19,035	15,029	14,848
Table prepared by ICMA with data from the Ministry of Public Works, Department for Housing and Public Works of the Government of Romania. The data for 1994 is as of March 31, 1994.					

The process has worked well, as shown in Table 3. Some 14,800 units still remained unfinished. The municipality of Bucharest expects to complete the process by 1996. At the current rate of completion, a target of 1997 or 98 might be more realistic. Some 1,700 units have been converted to office space. The balance have been or will be sold as residential units. The sectoral mayors continue to maintain waiting lists for government subsidized housing although the program no longer exists. Only a very small number of units may become available from the existing stock of unfinished units if some of the families to whom they were originally allocated drop out. In Sector 4, for example, only 180 of 12,000 families on the waiting list were allocated an apartment in 1993. Other government programs to help young newly married couples or to assist in the repair of buildings damaged by earthquakes exist mainly on paper. City officials expressed no interest in promoting the construction of additional housing until they have completed the task of delivering the remaining unfinished units.

Privatization of public housing that had been completed and allocated prior to 1989 has proceeded rapidly in Bucharest. The city privatized over 400,000 units between 1990 and 1994. This represents nearly 88% of the original stock of 450,000 units owned by the state as of 1989.²³ Progress remains very slow in privatizing the housing units that had been nationalized

²³ Source: Obtained by ICMA from the Department for Real Estate Management, Municipality of Bucharest.

or confiscated.²⁴ The dispute is over how to treat the original owners and current tenants. This is a policy issue that will be resolved at the national level.

Private Housing Market The rapid pace of privatization of public housing has been accompanied by a significant increase in the number of residential property transactions between private individuals in Bucharest. Figures obtained from the Notary Public show that there were over 39,000 sales of private homes in Bucharest in 1993.

There are two distinct real estate markets in Bucharest. One caters to foreigners and to the wealthiest Romanians. This market operates entirely in hard currencies such as the dollar and the mark. Rents for apartments range from \$200/month for one room to \$2000/month for four rooms. Rents for villas can go as high as \$4000/month. Sales prices range from \$30,000 for a two-room apartment to \$350,000 for a villa. These are all figures well beyond the reach of the average resident of Bucharest who might make the equivalent of \$100 to \$200/month. The second market caters to this far larger group and operates in a mixture of hard currencies and the Romanian *lei*. Rents in this case range from the equivalent of \$40 to \$60/month for one or two rooms to \$250/month for four rooms. Sales prices vary from the equivalent of \$4000 for a two-room apartment to \$10 - 15,000 for two or three rooms.²⁵ Finally, in the periphery of Bucharest there is growing evidence of renovation, improvement and new construction of single family housing. Much of this occurs in the communes that surround the city, such as Otopeni near the airport. No prices or costs were available for this activity. It is largely self-financed by the homeowner. The construction work is done by the families themselves or by small construction crews, often without permits.

A growing number of private firms participate in these markets. Real estate brokers serving both the for sale and rental markets have appeared. Newspapers and television broadcasts regularly carry real estate advertisements. A group of brokers in Bucharest have recently formed a real estate association, known as ARAI.²⁶ Their objective is to improve the operation and image of their industry by promoting uniform professional standards, training their personnel and facilitating the exchange of information. Few private construction firms are dedicated exclusively to housing. These firms tend to be small and undercapitalized. Nonetheless, some of them are beginning to create their own markets in small niches. One such firm buys individual plots in the few residential districts that had survived in Bucharest in 1989. The plot might have a single family home in poor condition. The firm builds a new house in place of the old one and sells

²⁴ Many of these units are villas located in the best neighborhoods of Bucharest. A state run company rents these villas, largely to embassies and foreign businessmen.

²⁵ The rents and sales prices quoted in this paragraph were taken from a report prepared by one of the private real estate firms engaged in this market. They were corroborated with separate data collected from advertisements in newspapers and publications by Ileana Budisteanu. All the numbers must be taken as approximations. The high taxes paid either on rental income or on the proceeds of a sale have resulted in extreme under reporting of actual values.

²⁶ The name derives from Asociația Română A Agenților Imobiliare (ARAI), the Romanian Association of Real Estate Brokers.

it for the equivalent of \$15,000. Buyers appear to be residents of blocks of apartments who want to move into a single family home. This type of activity is still infrequent.

Land is a major constraint to private housing activity in Bucharest. Parcels in the central locations have become very expensive, with prices ranging up to \$500 per square meter in the center of the city.²⁷ Price is not the only constraint. The unresolved issue of nationalized and confiscated housing and the still unclear situation of titles in agricultural lands on the periphery of Bucharest are creating uncertainty and limiting supply. Difficulties in converting farm land to urban uses further limit the supply.²⁸ Despite the difficulties, a private land market, at modest, affordable prices seems to be evolving informally. Land on the outskirts of Bucharest is available at prices as low as \$5 to \$15 per square meter. City officials are ambivalent about this trend toward lower density development on the periphery. There is no formal policy regarding the process at this time.

Detailed information about the types of transactions that are occurring in these markets in Bucharest is not available. Who is renting or selling? Why? To whom? Anecdotal accounts suggest that the answers are varied. There are reports of people moving in with relatives so that they can rent out their apartment. Others are selling the apartment they own and using the proceeds plus accumulated savings to buy up. Yet others are doing the reverse - selling and buying down. A surprising number of the cases recorded by the Notary Public involve a mortgage. These do not appear to be related at all to the purchase of the property. Rather, they are mechanisms to raise funds using the property as collateral for a short-term loan. The rental income and the proceeds from the property sales and mortgage loans are being used to start a business, buy expensive consumer goods, such as a car, or to buy land and other property. The actors also are varied. Some are the lucky few who have found middle-level professional jobs in the small modern sector of the Romanian economy or with foreign employers. Others are very much in the mainstream of the Romanian economy - clerical or professional civil servants, an extended family with land on the periphery of the city, a pensioner looking for extra income, students from outside Bucharest. The one common element to all these transactions is that they involve people using the property they now own to exercise options that might not have been available in the past.

²⁷ This was a figure quoted by members of ARAI at a meeting held in their offices. Their own monthly publication quotes a lower price of \$250 per square meter. This is more in line with the figure of \$250 to \$350 per square meter obtained by Ileana Budisteanu from advertisements.

²⁸ Rumanians are accustomed to very strict limits on the expansion of cities. They refer to farm lands as *extravilan* or those outside the built area. Vacant plots in the area slated for urban uses, or *intravilan*, are in short supply. The mayors of Sectors 1 and 4 both complained of the difficulties they confront in promoting new development in the periphery of their jurisdictions. The lands are either outside the urban area (*extravilan*) or were sold as part of the privatization to those who worked them when they were state-owned farms. The mayors feel that the situation would have been better if the lands had been returned to the original owners who largely live in the city.

3. BRAȘOV

In 1992, Brașov had a population of about 324,000, making it Romania's seventh largest city. Although the population grew to its present size from about 256,000 in 1977, city officials believe the population is now stable. Brașov is the site of a USAID condominium development and management technical assistance project.

Housing Stock. Table 4 compares Brașov's housing stock with the country as a whole. These figures suggest that Brașov residents consume about the same amount of housing space as others in Romania. In 1992, the average household size was identical to the country-wide figure of 3.1 persons. In addition, less than one percent of all occupied units contained more than one household. These figures indicate that overcrowding is not a major problem.

Table 4 Housing Stock Brașov			
	Country Total	Brașov	% of Country
Households	7,317,563	106,574	1.5
Dwellings	7,664,262	107,846	1.4
Dwellings/ Household	1.04	1.01	n/a
Floor area/ Person	11.5 m ²	11.5 m ²	n/a
Average size	34.2 m ²	33.3 m ²	n/a
Table prepared by the Urban Institute with data from the 1992 Census			

The housing stock is dominated by multifamily structures. In 1992, only 6.7 percent of dwellings were single-family structures, 13.5 percent were in small multifamily structures, and 79.8 percent were in large apartment blocks.²⁹

Brașov is located in an active seismic area, but has not suffered major damage. Damage was not severe even after the big earthquake in 1977. According to the Ministry of Public Works only 14 buildings (582 units) have earthquake damage. In the past, the government paid for technical evaluations of earthquake damaged structures, but individual owners were accountable for repairs.

²⁹ Our source did not define the difference between small and large multifamily structures. We have included this information to help give the reader a better impression of the housing stock's characteristics.

Public Housing. By the end of 1994, over 40,000 units had been privatized, leaving roughly 16,000 units still owned by the state. As Table 5 indicates, the greatest amount of privatization occurred in 1991 and 1992, a period during which almost 31,000 units were privatized. Assuming the total number of dwellings did not increase much since 1992, about 85 percent of the stock was privately owned at the end of 1994.

About 60 percent of the remaining public units are in nationalized structures. There are 2,790 nationalized properties comprising 9,274 housing units. These figures suggest that most nationalized units are in single-family or small multifamily structures. Until the disposition of the nationized stock is resolved, the private share of the housing stock will not be able to grow much further.

Table 5 Housing Privatization Braşov					
Year	1990	1991	1992	1993	1994
Units privatized	1,130	15,380	15,480	6,131	2,253
Remaining public units	56,088	54,958	39,578	24,098	17,967
Note: Remaining public units data are for January. Source: RIAL					

The number of households receiving state units has sharply fallen from 2,652 in 1992 to 303 in 1993. As of late 1994, less than 200 requests for housing had been filled for the year. At its peak, the waiting list for state housing contained about 30,000 households, but most of these households were trying to acquire larger and improved units rather than trying to obtain a first home.

The sharp drop in public housing production has been caused by cuts in state funding. Unlike some other cities, Braşov did not have a large number of unfinished structures at the time of the revolution that could serve as a potential source of public housing. By 1994, about 2,400 previously incomplete units were completed, and only 124 units remained unfinished.

Future public funding of housing is likely to be confined to three categories; housing for young couples, units for public sector workers, and social housing for the poor. As the state-funded program for young couples indicates, there are insufficient resources to meet the demand for subsidized units. The city accepted about 2,900 applications for this subsidized home ownership program, and although approximately 1,600 applicants qualified, the city could only afford to assist about 180 households.

Private Housing Market. Although Braşov, like much of the country, had a history of extensive private ownership even before the revolution, market activity has picked up due to the

increase in private ownership and the repeal of laws which constrained private property transactions. Broker activity has increased and the number of sales transactions in the Braşov judet³⁰ reached 4,022 in 1993.

Braşov's housing market is influenced by its relationship with the surrounding territory. One city official estimated that as many as 20,000 people commute daily between the city and the surrounding area. There has been, however, a decline in commuting, which may be related to the weak economy. The economy has been primarily based on large factories with over 20,000 employees, and some of these factories are having difficulties. Some people are moving back to the villages from which they originated, but it is unclear how much this is occurring.

Private housing construction has been limited. Most building permits have been for expanding units and remodeling. During the first ten months of 1994, the city issued about one thousand building permits, but perhaps only ten percent were for new homes. These homes are typically one- to three-level structures, and are built by people who have already acquired land. Land accessibility has become a problem caused by density limitations and the scope of the city's current administrative jurisdiction. It is difficult to gain legal approval to access land on the periphery of the city.

The inability of the city to finance housing-related infrastructure is another major constraint on new private construction. For example, in a recent fiscal year, the city transferred 150 billion lei of revenue to the state budget. Of this amount, 62 billion lei came back to the city: 50 billion lei to cover services, and 12 billion lei to support the local council budget. Half of the local council share was earmarked for heat subsidies, transportation, social welfare, hospitals, and cultural activities. An additional 4 billion lei was allocated for water supply and public works, leaving only 2 billion lei for running the city (an amount supplemented by an additional 3 billion lei of local revenue).

According to local officials, problems have accompanied the increase in private ownership. Some new owners do not realize the value of their units and have no sense of responsibility for common property. There is a tendency for residents to look to city hall to solve problems. Heating service and costs are the source of most complaints.

The maintenance burden in multifamily structures is high in part because of poor construction and cost cutting. For example, the use of low quality pipe material has resulted in short-lived plumbing systems. Heating pipes were installed which rust easily. In some buildings, potentially dangerous aluminum wiring was used in place of copper electrical wiring. Poor quality window frames have wasted energy. New owners may be unprepared for the costs they will have to bear as poorly constructed systems in their buildings fail.³¹ One of the main goals

³⁰ Administrative jurisdiction roughly equivalent to a county.

³¹ The city also manipulated building standards to cut costs. For example, to increase building density, it reduced the required distance between buildings. This is felt today in the form of severe parking problems. At one time, planners assumed there was only going to be one car for every ten housing units.

of the USAID condominium project in Braşov is to give residents the tools to better manage and maintain their units.

4. ORADEA

Oradea is situated in the northwest of Romania, near the border with Hungary. The Crisul Repede river runs through the city from east to west. The investigation of the housing sector in Oradea showed that the current situation in that city conforms to the national patterns described in an earlier section of this report. The investigation also provided useful insights with regard to the problems confronted with utility services by tenants, homeowners and the associations representing them.

Housing Stock Oradea is a city of about 211,000 inhabitants.³² The population of the city has decreased by 8% since 1990, when Oradea had some 230,000 inhabitants. The local economy has lost jobs in key areas, such as heavy industry, construction and the food processing.

As Table 6 shows, the general housing conditions in Oradea are similar to those that exist in Romania as a whole.

Table 6 Housing Stock Oradea			
	Country Total	Oradea	% of Country
Households	7,317,563	76,660	1.0%
Dwellings	7,664,262	79,371	1.0%
Dwellings/ Household	1.04	1.04	n/a
Floor area/ person	11.5 m	12.8 m	n/a
Average size	34.2 m	34.3 m	n/a
Table prepared by the Urban Institute with data from the 1992 census.			

Public Housing As in all major cities of Romania, there are large numbers of apartment buildings in Oradea developed by the state, especially during the 70s and 80s. When funding for the program ended abruptly in 1989, there were 1,066 apartments in various stages of construction. A public company (*regie autonome*) owned by the municipality assumed responsibility for finishing these units. All the financing through 1992 came from the prospective buyers. They made partial payments on the sales price of unit as construction advanced. This

³² Oradea was a "closed" city, just as Bucharest and Braşov. City officials indicated that there still may be as many as 20,000 persons living in the city and not registered as residents. They also estimated that there may be an additional 40,000 persons who come into the city daily from outlying areas. Of these, some 14,000 have jobs in Oradea. The balance are students, shoppers and visitors.

is the same practice used throughout Romania. Starting in 1993, the national government began providing funding for the construction in the form of subsidized loans to the buyers.

The public company has made good progress in completing the unfinished units, as shown in Table 7. Company officials indicate that they will complete the remaining 259 units in 1995. The estimated sales price for the last units (two-room apartments) will be 15,000,000 lei. City officials would like to build additional public rental units for newly-married couples and for those who cannot afford to buy in the private market. Although the city owns some 60 hectares of vacant land that would be suitable for the development of apartment buildings, there are no plans at present to start the construction of new units. A completely new two-room apartment would cost about 30,000,000 lei (without land costs). There is no market at this price in Oradea. Neither the city nor the national government can afford to subsidize new housing at this time. The mayor thinks that at the local level the issue can be solved with the help of non-profit foundations. The city has sponsored the creation of one foundation. The idea is that it might run a housing program for the elderly. There is little possibility that the foundation will find the financing for this program any time soon.

Table 7 Completion of Unfinished Units Oradea					
Year	1990	1991	1992	1993	1994
Units completed	N/A	386	212	65	144
Units in process	1066	680	468	403	259
Sales Price (in Lei) two-room apartment	Not Available	450,000	1,500,000	4,000,000	8,000,000
Table prepared by the Urban Institute with data provided by the Public Company responsible for completing the construction of the remaining unfinished state housing units in Oradea.					

The municipality of Oradea has made equally good progress in privatizing the existing public housing stock. The city-owned Public Company (*Regie Autonome*) for Communal and Housing Properties has responsibility for the process. As Table 8 shows, the Company has moved quickly to sell the available units.

Table 8 Housing Privatization Oradea			
Year	1990	1990 - 1992	1992 - 1994
Units privatized	N/A	25,328	6,672
Remaining public units	42,000	16,672	10,100
Table prepared by the Urban Institute with data provided by the Public Company for Communal and Housing Properties responsible for privatization in Oradea.			

Table 9 Public Housing Stock (1994) Oradea								
	Bldgs	Hsng Units	Prior to 1929	1929 to 1949	1959 to 1968	1969 to 1975	1975 to 1984	1984 to 1989
State- built apartments	710	3,482	0	0	560	630	1,250	1,042
Category I	n/a	2,997			560	480	915	1,042
Nationalized houses	1,572	6,618	2,952	3,666	0	0	0	0
Total Public Housing Stock	2,282	10,100	2,952	3,666	560	630	1,250	1,042
Data obtained from the Public Company for Communal and Housing Properties responsible for privatization in Oradea.								

The 10,100 units that are still publicly owned fall into two large groups - state-built apartments and nationalized houses - as shown in Table 9. Some of the remaining state-built apartments are in buildings that are still completely state owned. Others are scattered in buildings where most of the other apartments have been privatized. The city will face serious difficulties privatizing many of these units. As Table 9 shows, 86% of the units are of "comfort" category I, that is, single-room units with almost no amenities. One-third of these category I units are over 20 years old. In addition, many of residents of the units have expressed no interest

in buying the apartment they occupy. They are waiting for a larger unit or cannot or do not want to buy. The situation with the units in the 1,572 nationalized or confiscated houses is different. All these houses were built prior to 1949 (45% prior to 1921). Most were single-family units initially. Once nationalized or confiscated they were broken up into several rental units. Some 60% of these houses are in the historic center of Oradea. Privatization is on hold pending enactment of a restitution law. This is a policy issue that is outside the control of the city.

Private Housing Market As in Bucharest and Braşov, the rapid pace of privatization of public housing in Oradea has been accompanied by a significant increase in the number of residential property transactions. Table 10 shows the figures obtained from the Notary Public. These are the figures for all the District of Bihor, which includes Oradea. According to the Notary Public, the city probably accounted for 50% or more of these transactions.³³ Anecdotal evidence obtained for other parts of Romania suggests that the transactions involved a wide range of activities.

Table 10 Residential Property Transactions Oradea					
Year	1990	1991	1992	1993	1994 (YTD)
Number of transactions	3,347	3,325	6,000	9,700	7,000
% Increase	n/a	(0.7)%	80.5%	61.7%	n/a
Prepared by the Urban Institute with data obtained from the Notary Public for the District of Bihor.					

Private construction of new housing is limited. Only 154 permits were issued in 1993 - 1994 for the new housing. The city also issued permits for remodeling, repairing and improving existing private units (the exact number was unavailable). The expansion of the city is blocked on the east and west by heavy industrial areas and on the south by the airport and an agro-industrial area. City officials anticipate that most growth will take place in a hilly area to the north of the city. This is, in fact, where much of the new housing development is taking place, particularly in the area surrounding the regional hospital.

There is a great disparity between the price of newly built units and the price for existing apartments sold on the market. Reflecting the high inflation in Romania, the price of a two-room

³³ The remaining transactions are in the surrounding farm lands and communes that make up the rest of the District of Bihor. Although there was no time to look at the activity in these areas, city officials and private builders indicated that there is an active private real estate market in these areas as well. Some of that activity may represent a shift of the demand in Oradea looking for lower-cost options. Conversations in both Bucharest and Braşov pointed to the same phenomenon.

apartment increased from 450 thousand lei in 1991 to an estimated 30 million lei today, at an average construction cost of around 500-600 thousand lei per square meter.³⁴ An equivalent existing apartment, in a well located residential area in Oradea, would sell on the free market for about 12-13 million lei, or half the estimated cost of a new unit. These price differentials and the decreasing population of Oradea explain why the number of transactions involving existing properties in 1993 - 1994 was sixty times greater than the number of new units built during the same period.

Utility services Discussions held with members of homeowners associations representing the residents of 3520 apartments, revealed that there is a high level of dissatisfaction with the services offered by the city-owned public utilities (*regii autonome*). Most specific complaints centered on the heating utility and included complaints about excessive billing, high cash deposits to be paid up front and poor customer relations. The lack of individual meters not only for apartments, but also for most of the buildings makes it impossible to determine the actual consumption and hence the amount owed by each homeowner. The homeowners associations feel that the heating utility takes advantage of this situation to pass on its high costs due to inefficient production and losses in transmission. Generally, the city-hall got high marks from the associations for being accessible and willing to try to help. The city has set up an office just to receive complaints from the associations. The utilities, however, are viewed as being inaccessible and not interested in their consumers.³⁵

The members of the homeowners associations also expressed a need to reinforce their organizations. They see a need for a new law that establishes the structure and functions of the associations.³⁶ They also feel that there should be more training for association members. Finally, they pointed out that most of the apartment buildings do not have common meetings rooms or an office where the association can conduct its affairs.

Rental Housing Mayor Petru Filip of Oradea feels that the emphasis on home ownership may have gone too far. He sees a need for more rental housing to meet the needs of those with low incomes, transients and generally those who do not already own their own home. Mayor

³⁴ This price does not include the cost of land. With so many unresolved property right issues surrounding nationalized houses in the city and farm lands on the periphery, land prices are probably high in Oradea. We did not obtain land cost figures for Oradea.

³⁵ There was no opportunity to visit the utilities to hear their side of the story. They are not exempt from the pressures to restructure and to operate on more businesslike terms. This probably means having to increase rates and improve collections. This does not account for the apparent indifference to consumer relations. The utilities might actually have a better chance to restructure successfully if they had the confidence and support of their clients.

³⁶ The current associations exist under the terms of Decree 387 of 1977. At the time, the emphasis was on associations of tenants of state-owned housing. This is not compatible with the needs of home owners, particularly of those living in apartment buildings. A draft Condominium Law is under consideration by the national government. Currently, it would be an appendix to the proposed new Housing Law.

Filip believes that privatization may have provided special protection to the older population at the expense of the younger people. Newly formed households cannot afford to buy at current prices. The extensive privatization also helped to create the impression that it is shameful to be a renter. In addition, he sees rents increasing to reflect the costs of new construction, not the market price of existing units. This is making even renting unaffordable. The rental market is not developing. The mayor favors the idea of having the city focus its efforts on helping to organize a viable rental market, even it means subsidizing rents. In addition, he sees a need for a new legal structure for this market, one which provides adequate protection to the tenant.

5. SIGNIFICANCE OF THE HOUSING SECTOR

When Romania already is confronting so many crises, can the country afford to take the time to avoid one in the housing sector?³⁷ This is a valid question. The quick answer could easily be no. There also are good reasons to focus on the housing sector at this time and not just to avoid a future housing crisis. Rather, efforts to strengthen and support the private housing market and to put in place sensible public housing assistance programs are justified because they will produce immediate, real benefits.

- The housing sector may offer a unique opportunity for private citizens to act independently to improve their own well being without having to rely on the state.
- Housing assistance is a necessary component of the social safety net that will ease the transition to a market-based economy.
- By facilitating labor mobility, the housing sector will improve the efficiency of the labor market.

Improved well being *Housing represents a considerable accumulation of wealth in the hands of households in Romania. As the country moves to a market-based housing sector, this wealth provides a unique opportunity for private citizens to act independently to improve their own well being without having to rely on the state.*

As is true in any society, Romanian households have a diverse range of needs and aspirations, as homeowners, as consumers and as potential entrepreneurs. Prior to 1989, their options were severely constrained by a centrally planned economy. State housing programs, for example, sacrificed variety to facilitate the large scale production of apartments of identical design.³⁸ The transition to a market economy held out the hope and expectation of a wider array of options and of a greater freedom of choice. Five years of declining real incomes and increasing prices have tarnished that hope for many. The limited development of the financial sector has exacerbated the difficulties. With dwindling incomes and limited access to credit, households are hard pressed to take advantage of the expanded supply of goods and services on the market or of the opportunity to participate as entrepreneurs in the new market economy.

The housing sector may offer an exception to the otherwise dismal picture of everyday life for many Romanians. The rapid privatization of the public housing stock on highly favorable terms starting in 1989, transferred a significant share of national wealth to private households. The preliminary evidence suggests that a growing number of these households may be trying to leverage this new wealth not just for housing but also for general consumption and investment.

³⁷ Liviu Ianași, a Rumanian planner who has studied and understands the housing sector well, asked this rhetorical question as a way of expressing his concern for the lack of attention to the sector.

³⁸ Bertrand Renaud provides a good description of the limited response to household preferences in the state housing programs of the centrally planned economies. See Renaud, Bertrand (1991). "Housing Reform in Socialist Economies," The World Bank, Discussion Paper 125.

The emerging housing market functions without formal financing except for limited concessional financing offered by the government. Because so many households own their home essentially free of debt, the additional funds needed to complete most transactions can be relatively small. For the moment, accumulated savings appear to be sufficient to support an active market at all income levels. Recorded residential property transactions more than doubled between 1990 and 1993. Anecdotal accounts of these transactions indicate that some households have traded up to a bigger or better located housing unit. Others have traded down and used the profit to start a business or to buy expensive consumer goods, such as a car. Yet others are changing life styles - moving from an apartment to a single family home. Others have chosen to enhance their income by renting all or part of their unit. A surprising number use their property as collateral to raise funds through a short-term bank loan for general consumption or for investment.³⁹

The analysis done for this report shows that rapid housing privatization coupled with the elimination of laws that constrained the private housing market in Romania appears to be providing important benefits to the new homeowners. Is this a model to copy or to avoid? Much of the work done to date on the transition to market-based housing in Eastern Europe and the NIS has focused on the proper approach to the privatization of the state-owned housing stock.⁴⁰ Although the debate on alternative strategies is moot in Romania where privatization is a *fait accompli*, many of the concerns underlying that debate are relevant to the housing sector in that country. They raise a number of valid questions about the recent experience in that country. Will housing privatization succeed in Romania although many concurrent institutional and legal reforms are still pending?⁴¹ Is the market sustainable? The terms of the privatization in Romania favored individual households over the state. How are they using their newly-gained wealth? Who benefits?⁴² Did housing privatization go too far? Is there a need for a public rental sector to serve those who do not want to or cannot buy their own home.⁴³ This is a concern shared by many persons in and out of government in Romania today.⁴⁴ This report cannot provide a conclusive answer to these questions. A complete understanding of the current housing market in Romania and of its real potential will require additional research.

³⁹ Over 11% of the property transactions recorded by the Notary Public involve a mortgage. Persons interviewed in the Notary Public and in the real estate industry indicated that mortgage loans are not being used to complete the sale of the residential property. Apparently, the banks will not issue a loan commitment to a prospective buyer. The borrower must already own the property before a bank will accept it as collateral for a loan.

⁴⁰ Kingsley and Telgarsky (93) provides a good overview of the work of the authors who have analyzed the process of housing privatization in these countries.

⁴¹ See, for example, Renaud (91).

⁴² See, for example, Katsura and Struyk (91)

⁴³ See, for example, Hegedüs, Mark, Struyk and Tosics (93).

⁴⁴ See the section entitled Social Safety Net, below.

Social Safety Net *Some lower-income homeowners may be having difficulties meeting monthly payments for utility services. The housing situation is even more difficult for those who are not already homeowners or for those homeowners who lose their units. The options available to these groups in need are limited. Public housing programs are in disarray. The private housing market of lower-priced units for sale or for rent is just beginning to develop. In the short run, housing assistance should be an important component of the social safety net.*

Following the successful privatization process, over 90% of Romanians are homeowners. The vast majority own their home essentially free of debt. Much of the housing that remained in private hands during the prior regime was built and paid for prior to 1949. New private housing construction in the last forty-five years has been largely in rural areas and financed from family savings and current income by the owners. The terms of the privatization of the public housing stock were highly subsidized. Inflation has eroded the real value of whatever debt purchasers incurred. In terms of national accounts, the value of this private housing stock would be measured in terms of the imputed rent. On a cash basis, the reality is that most homeowners make no monthly payments on their home. This reduces the monthly cash cost of housing for these households by comparison with those of households in any other housing market that depends to a much higher degree on debt financing. It also provides a buffer for these households from the impact of declining real incomes. This is what Mayor Petru Filip meant when he stated that housing privatization had provided "social protection" to many households.

For an undetermined number of homeowners, the reality is otherwise. Price liberalization has produced increases in other key components of the household budget. The share of the budget dedicated to food expenditures has increased to over 55%. Utility bills are increasing. Electricity prices increased by 42% in April of this year. Concurrent increases in fuel prices will drive up the monthly household heating bill. At the same time, real wages have been declining. Wage restraint will continue to be an important part of any viable stabilization and adjustment program.⁴⁵ In this context, those who lose their job and those who started out with the lowest incomes, such as many pensioners, may be facing serious difficulties just in meeting their monthly utility bills. Anecdotal accounts and the interviews with members of homeowners associations support this view. The need and the prospect for further price liberalization and for restructuring state enterprises does not bode well. The government provided one-time assistance with heating bills to needy households in 1993. There is no on-going program at this time specifically to provide assistance in paying for utility services.

Not every household in Romania owns a home. There are still nearly 590,000 publicly owned units. Over 347,000 households live in state-built units. Another 241,000 await the resolution of the issue of restitution of nationalized or confiscated housing. Finally, new households are being formed constantly through marriage or divorce. Households in each of these groups have some possibility of obtaining their home. Those in state-owned units can still purchase them as part of the on-going privatization process. The policy on restitution will

⁴⁵ The preceding account in this paragraph is based on the Economist Intelligence Unit Report on Romania, 2 nd quarter 1994. Renaud (91) discusses the problem of the impact of wage reforms and the behavior of household expenditure patterns on the transition to a market-based housing system.

eventually resolve the ownership of the nationalized units in favor of the original owner or of the current tenants. New households can build on the housing assets of the extended family to facilitate their access to the housing market. The fact is that prospects of home ownership for all these groups are limited. Much of the housing stock still in government hands is of the poorest quality - single-room *garsonieră*⁴⁶ in poor state of repair. Those living in these units have little to gain by buying them. Any policy on restitution of nationalized housing will have winners and losers. To a lesser extent, this is also true in extended families where there are accounts of the new, younger members pushing the older members of the family.

Public housing programs are in disarray. Other than finishing the units that were in process in 1989, the state has halted all new construction of subsidized housing. The proceeds of the sale of the existing public housing stock were to have created a fund to finance future programs. The flip side of the erosion of the real value of the debt incurred by the purchasers was the decapitalization in real terms of this fund. The national and local governments recognize the need to do something. They simply do not have the resources. Given the high cost of new construction versus the market price of existing housing, it makes little sense for the public sector to dedicate scarce resources to a program to build subsidized housing. There is no policy at this time on public rental housing programs. Actually, the government might do better focusing on housing assistance as part of a broader social safety net and not as an isolated program.⁴⁷ Such a focus would allow the government to consider the wealth implications of home ownership for otherwise disadvantaged families. Conversely, it would facilitate and improve the targeting of housing assistance.

Labor mobility As Romania makes the hard but inevitable choices to restructure its economy to become competitive, many persons will need to find new employment in a different industry or different location or both. The ability of the housing market to accommodate these shifts will have a significant impact on the mobility of labor.

The restructuring of the Romanian economy will require the reallocation of resources and the relocation of some economic activity. This restructuring process already is evident in two of the cities studied for this report. Both Braşov and Oradea have large state-owned manufacturing plants that are no longer sustainable. There already has been a loss of jobs in these plants. The largest job losses are yet to come. On the other hand, both cities are trying to become important links to international markets - Braşov as a transportation hub and Oradea as a key border town. If the strategy succeeds, it will create new jobs. To make the process work efficiently, city residents losing their job will need to be able to move to other parts of the country where their skills might be more in demand. Romanians living in other areas will want to move to Braşov and Oradea to compete for the new jobs. Whether newly unemployed or employed, these persons will need to resolve their housing needs. Some will own a home that

⁴⁶ This is from the French name *garçonnier* for a small apartment consisting of a single room.

⁴⁷ Professor Virgil Ioanid of the Technical University in Bucharest pointed out that it would be easier to consider housing assistance in the context of a broader law passed recently by the Senate that would provide cash subsidies to 500,000 families. He suggested that this would improve the targeting of the housing assistance and improve the efficiency of the entire assistance package.

they will want to sell as part of the move. Some will want to use the proceeds of the sale to buy a home in the new location. Others, will need or want to rent a home until their situation is stable. If housing choices are impossible or excessively difficult, many will be discouraged from moving. This will keep some job seekers in a local economy which cannot use their skills. It will also deny the local economy the skills it needs from others. In this way, the housing sector will either enhance or constrain the efficiency of the transition to a market economy.

Most of those who will be looking for a new job currently are homeowners. They have no rent or mortgage payments to meet. This will facilitate the design of a transitional safety net for the unemployed. It may also make it easier for those who move, since they can sell or rent their existing unit to buy or rent one in the new location. There already is evidence that the private real estate market is brokering such inter-city transactions.⁴⁸ Any measures to induce market operation of the housing sector will contribute to the role of the sector in facilitating labor mobility.

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The members of ARAI indicated that they already are serving an inter-city market.

6. PRIORITY NEEDS IN THE HOUSING SECTOR

Maintaining and improving the existing housing stock *The highest priority is to arrest the deterioration of the existing housing stock, particularly in blocks of apartments.*

Housing represents a considerable accumulation of wealth in the hands of households in Romania. Much of the potential for the development of an active private housing market and for the benefits that would derive from such a market rests on this fact. Wealth accumulation is at risk because the value of a good part of the housing stock is deteriorating from lack of maintenance and timely repairs. The problem began with the poor construction and design of state-owned apartments. It has been exacerbated by years of deferred maintenance. Many existing buildings are in serious need of repairs to fix leaking roofs or faulty pipes or wiring.⁴⁹ The transfer to private ownership has not yet changed this situation in any significant way. The housing stock continues to deteriorate. Efforts are under way, with USAID assistance, to establish the legal basis for condominium associations that would define better ownership rights and responsibilities in multi-family buildings.⁵⁰ Also, basic upkeep and preventive maintenance will become more and more important as the housing market begins to recognize and reward the units that are more attractive and in better condition. There were accounts in Bucharest of private real estate firms paying to improve the conditions of the stairwell serving several apartments and recovering the investment through the increase in market value of just one of those apartments owned by the firm. Additional support for the process will come from the development of an active private building management and improvement industry. Whatever the means, it is important to accelerate and expand the effort to preserve the existing housing stock.

There also are opportunities to increase the value of the existing stock through selective investments in renovation and expansion. High monthly utility bills are a growing problem throughout Romania. Eventually, the solution will have to involve a restructuring of public utilities to improve efficiency. As far as consumers are concerned, the ability of many households to manage their utility costs is impaired because their apartments lack individual meters. Often, several buildings with tens or hundreds of apartments share a single meter for heating. In many cases, it will be too costly to try to meter each apartment individually. It should be feasible to provide individual meters for all buildings. This will at least put the problem under the control of a single homeowners association or condominium. It may also help promote the need to look at the overall efficiency of the apartments in a given building in consuming water, heating and energy. There may also be opportunities to combine building renovations with small expansions. For example, by adding a sloping roof to reduce leaks on flat roofed multifamily buildings, it may also be possible to create a mansard with small

⁴⁹ See the section of this report on Braşov for a good discussion of the problems with apartments built by the state.

⁵⁰ In an interview in Oradea with members of associations created under the obsolete legislation from 1977, they recognized the need for new legislation.

efficiency apartments underneath.⁵¹ The uniformity of design of state-built housing can become an asset in this process. Since so many buildings are identical, once the basic engineering and cost analysis is done for one building, it can be applied easily to probably hundreds of others. This might become an easy way for an enterprising private firm to promote business.

Facilitating private residential real estate transactions *Romania needs a viable and agile private real estate market if households are to realize fully the opportunity for improved well being that is inherent in the housing they own.*

There are many obstacles to overcome in the development of the private real estate market. Many persons appear to be hesitant and apprehensive about buying or selling a unit. The adverse consequences of a bad deal loom large. All but a small minority of households would be unable to replace their home if they were to lose it. Imperfect flow of information on prices and values and on supply and demand exacerbates this situation. Lack of financing and the need to rely on cash transactions create additional complications. Private real estate firms are in their infancy. There are no professional standards to guide the industry and to provide reasonable assurances to its clients. Training of staff is limited at best. Many would-be clients do not see why they should pay a commission to a broker. Yet, in a market that functions largely through bartering and one-on-one trading, the role of brokers as match makers is vital.

The newly-formed association of private real estate brokers in Bucharest, ARAI⁵², has identified many of these problems as a priority in their agenda. They would focus first of all on training of their staff to improve the efficiency of their operations and to provide the best possible image to their clients. Second, they would seek to establish standards for the real estate industry to provide a greater sense of confidence in their nascent firms. Brokers currently operate under the terms of the general commercial code. ARAI has spoken of the need for a special law just for the real estate industry. Finally, ARAI wants to create better communication links among their members to improve the flow and exchange of information.

Expanding access to the housing market *The viability of the emerging market-based housing sector in Romania depends to a significant degree on expanding the current supply of affordable housing for sale or for rent.*

In the forty years prior to 1989, the housing sector in Romania was characterized largely by uniformity and standardization of new construction. The emerging market-based housing sector should become the opposite. It must provide a variety of choices and generate housing of diverse types and prices and location in response to the evolving demand for housing in Romania. Anecdotal evidence suggests that much of the current activity in the housing market

⁵¹ This was done already in a building in Oradea. In addition to the better roof and additional apartments, the change improves the appearance of the building dramatically. There was discussion of similar efforts in Braşov.

⁵² The name derives from Asociaţia Română A Agenţilor Imobiliare (ARAI), the Rumanian Association of Real Estate Brokers.

involves households wanting to change life styles. That is, there are families looking for the opportunity to move from multi- to single-family housing or to units of different size or location. The newly-affluent want housing of higher quality in prime locations. There are those who are not currently housed. Newly formed households and those who never had or who lost their own home need new, affordable options to address their housing needs. Finally, the need to facilitate labor mobility will create an additional demand for housing in regional markets with growing economies.

New housing sponsored or subsidized by the state is not a viable or prudent solution. Fiscal resources are limited and new units can cost as much as two to three times the market value of similar existing units. It is more useful for the government to support the growth of private housing production. The supply of housing for purchase or for rent in the private housing market is just beginning to diversify. Much of the new housing construction by private developers is expensive and is affordable by 5% or less of the population. Private rental units offer a wider range of prices, but the supply of lower-cost rental units is limited. No private builder is investing in new lower-cost rental units. The price of land and the cost of new construction are high relative to the purchasing power of many households. Other than very limited financing on concessional terms from government sources, there probably will be no formal financing for the purchase of housing for years to come. In this context, it is likely that new private housing sub-divisions or apartment buildings will continue to address only a very small share of the demand. A more likely prospect is that private sector supply of new, lower-cost housing will expand through individual transactions involving a single unit at a time. This already is occurring on a modest scale, mostly on the edges of the cities or in the surrounding communes where land is less expensive. It also is occurring in the remaining, older single-family sub-divisions inside the cities.

Public policy regarding the private housing market at this time is best characterized as *laissez faire*. Indirectly, the government may be having an adverse impact on the market. For example, some greater flexibility with land subdivision for single family housing on the periphery of cities would help.⁵³ Romanians have a long tradition of self and mutual help home construction. Given access to lots, some households might be able to build their own homes at lower cost. Yet, the process for converting land to urban use in the expansion area of all cities is slow and cumbersome. Some municipalities are not yet sure whether they want to promote development in these areas. Also, much of the land in the expansion areas comes under the agricultural land privatization process. The slow progress in issuing land titles is creating further difficulties. A public policy decision to address these constraints could open the way for the construction of new, affordable housing at little or no cost to the government.⁵⁴

⁵³ A government survey apparently showed that a high percentage of families currently living in apartments want to move to a single-family home. Conversations with builders in Bucharest confirmed that there is an active market of persons selling apartments to buy a single family home. Visits to the periphery of Bucharest and Braşov confirmed that there are many new homes under construction.

⁵⁴ The issue for the government would be the cost of providing infrastructure for these new developments. In the short run, the existing infrastructure might be adequate, especially if the new construction is dispersed over many sites. In the medium term, municipal governments will have to take

In any case, given the large size of the existing stock, new public or private construction may not be the best solution. Ironically, Romania may have over emphasized the merits of home ownership. The government should encourage and support the development of an active rental market that would provide entry-level housing for those with little or no savings and for those with limited incomes. The state does not have the resources to build new public rental units at any significant scale. A more realistic and practical course of action for the government would be to identify and address existing policies or practices that constrain the development of a private low-cost rental market. For example, current fiscal policy creates a strong disincentive to homeowners who might want to put their unit up for rent. Rental income is taxed at 46%. There is no provision for offsetting expenditures or for depreciation. Those trying to evade the payment of taxes have created a grey market. Many homeowners may be unwilling to participate in such a grey market. The provision in the draft of the new housing law could constrain activity further by establishing a ceiling on rents based on a set formula. The government should review and reconsider these existing and proposed policies in light of the potential benefits of affordable private rental housing.

Finally, the Government might want to provide direct assistance to those households that are unable to meet certain minimum housing costs. In other Eastern European countries, such as Poland, the Czech Republic, Estonia and Latvia, the government has focused on a program of housing allowances that provides direct subsidies to households for rental housing. Since Romania's housing stock is largely privatized, only a small percent of the households would benefit from rent subsidies. An interesting option might be to target subsidies to the payment of heating, energy and other utilities as well as maintenance and renovation costs. This would help low-income renters and homeowners alike. For example, older homeowners who depend on government pensions are having trouble meeting the increasing cost of heating. Renters would benefit by receiving relief on the payment of utility and maintenance costs. An additional advantage of a housing allowance program is that it would facilitate household mobility.

The government could possibly finance such a program by reducing the subsidies to the *regii autonome* that operate the heating, energy and other public services. The current prices for public services provide an indirect subsidy to all residential consumers. This form of subsidy does not differentiate between those in need and those who could afford full market prices. A program of housing allowance that provides subsidies for payment of utilities to those in need would free the government to move toward rationalized user fees that are a precondition to placing the *regii autonome* on a self-sustaining basis.

Defining the role of government *The government might want to concentrate at this point on creating the enabling framework for the new and evolving housing sector.*

Prior sections have argued against the need for government programs that provide new housing. They also have described the potential role of the private housing market in addressing broad housing needs. Finally, they have suggested that any new public housing assistance should

the lead in directing the activity to areas that are easier and less costly to serve. The Ministry of Public Works has prepared a good draft of a new Regional and Urban Planning Law which would provide the legal tools that municipalities will need to address this issue.

be considered in the context of a more general social safety net. The common element of all these proposals is that they see the role of government as one which enables others to meet their own housing needs. The proposal to create a housing allowances program is consistent with this view. Demand side subsidies, such as the allowances, are preferable to supply side subsidies, such as subsidized utility rates, because they offer incentives to producers to become more efficient.

There is much to do to create such an enabling framework. There are unresolved property rights issues. There is a need for new legislation to define the structure and functions of condominium associations and of the private real estate market. There is a need to push forward pending legislation that would unify the process of recording titles and real estate transactions. Finally, there is the need to review the impact of current public policy on the private housing market. These are all areas in which government can make a significant difference at this time with limited claims on scarce fiscal resources. Eventually, the government also will have to take steps to support the development of a market-based housing finance system. In all these cases, a clear public policy that casts the government in an enabling role will provide confidence to the private housing sector and encourage its development.

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ANNEX I

EXISTING AND PROPOSED LEGISLATION IN ROMANIA RELATED TO THE HOUSING SECTOR

I. ON PROPERTY RIGHTS

A. Existing Legislation

1. The *Constitution of Romania* (Constituția României) adopted by national referendum in December 1991:
 - defines and guarantees property rights;
 - land can be owned only by Romanian citizens.
2. The *Land Fund Law* (Legea fondului funciar, No. 18/1991 — M.O.⁵⁵ No. 37/1991):
 - restitution of agricultural land to former owners and their inheritants;
 - redistribution of state-owned land (with the exception of state farms), approximately 25% of all agricultural land, reorganized as commercial companies;
 - obligation to register land and titling;
 - definition of land in the public domain⁵⁶ and in the private domain⁵⁷ (property of the state, of the counties or of the local public administrations);
 - right to sell, subject to preferential acquisition right (pre-emption) by the Rural Development Agency (Agenția de dezvoltare și de amenajare rurală⁵⁸).
3. The *Law on Local Public Administration* (Legea administrației publice locale, No. 69/1991 — M.O. 238/1991):
 - local autonomy, decentralization of public services;
 - responsibilities and functions of the basic administrative units of the country: counties, municipalities, cities and communes;
 - definition of owners of the local assets in the public domain and the private domain;
 - right to lease, rent and transfer the management of the assets in the public domain and to sell assets in the private domain; selling, leasing, renting and transferring of management rights by public bidding;

⁵⁵ Monitorul Oficial — (The National Official Gazette)

⁵⁶ Subject to laws dealing with public property

⁵⁷ Subject to laws dealing with private property

⁵⁸ To be established by law. Presently being discussed by the Parliament.

- right to cede real-property for free use for a limited period, to charitable activities or to activities of public interest;
 - right to approve urban and regional planning documents;
 - right to establish and raise local taxes and special taxes.
4. The Law on *Expropriation for Public Interest* (Lege privind exproprierea pentru cauză de utilitate publică, No. 33/1994 — M.O. No. 139/1994):
- expropriation for public interest by decision of the court and with just and prior compensation;
 - listing of works of public interest;
 - procedure for declaring the public interest;
 - legal procedures for the decision, compensation and appeal.

B. Proposed Legislation

1. The *Law for cadastre and real property registration* (Lege pentru cadastru și publicitate imobiliară) — adopted by the Senate on July 5, 1994; to be adopted by the Chamber of Deputies in early December of 1994:
- a unitary system of land and real property registration (by plot, building and owner) developed for each commune, city and county;
 - coordinated by a government agency "The National Office for Geodesy, Cartography and Cadastre."
2. The *Law on the Public and Private Patrimony of the Administrative Units* (Lege privind patrimoniul public și privat al administrațiilor publice locale) — initiated by the National Peasant-Christian Democrat Party (PNT-CD); registered with the Chamber of Deputies on October 4, 1994.

II. ON PUBLIC FINANCE

A. Existing Legislation

1. The *Law on Public Finance* (Legea privind finanțele publice, No. 10/1991 — M.O. 23/1991):
- authorizes intergovernmental transfers to the local administrative units to compensate for local budget deficits, following request by the local authorities;
 - local authorities may apply for loans to finance specific investments, by bond-issues to be repaid in 10 years.
2. The *Law on Local Taxes and Charges* (Legea privind impozitele și taxele locale, No. 27/1994 — M.O. No. 127/1994):

- taxes on buildings in ownership of physical persons (1% of the value established according to Annex 1);
- taxes on buildings in ownership of legal persons (1.5% of the registered value);
- taxes on land established in leis/sqm, by categories of communities and location inside the limits of the settlement, as established by the local councils.
- taxes for delivering urban certificates set in proportion to the built area
- building permits--2% of the construction costs (1% in the case of housing).

B. Proposed Legislation

1. The Government is preparing a draft-law on *Central and Local Public Finance* (Lege privind finanțele publice centrale și locale).
2. Four drafts have been formulated on the issue of *Local Public Finance* and introduced in the Chamber of Deputies by four opposition parties (PL-93, PNT-CD, PER and PD) and by the Federation of Municipalities. The Government and its supporting parties contest the need for this law.

III. ON PRIVATIZATION

A. Existing Legislation

1. The *Decree-Law on the sale of the state-owned rental houses* (Decret-Lege privind vânzarea de locuințe construite din fondurile statului, No. 61/1990):
 - selling the apartments to the sitting-tenants by granting long-term loans with a 3% interest rate;
 - the income derived from sales is to be channeled into a special fund for the completion of the unfinished housing;
 - a one-year moratorium on re-selling (which was never enforced).
2. The *Law on the sale of dwellings and spaces with other uses, built by the state or by state-owned enterprises* (Lege privind vânzarea de locuințe cu altă destinație construite din fondurile statului și din fondurile unităților economice sau bugetare de stat, No. 85/1992 — republished in M.O. 260/1994):
 - expands the rights of sitting-tenants to buy housing built by state-owned enterprises and agencies (including pre-war insurance companies, banks, mutual funds), under the same conditions as those of the Decree-Law No. 61/1990, but at an indexed price;
 - exceptions are stipulated for large and luxury apartments.

B. Proposed Legislation

1. The *Law for determining the legal status of dwellings transferred into the ownership of the state* (Lege privind reglementarea situației juridice a unor imobile cu destinația de locuințe, trecute în proprietatea statului) — adopted by Senate on June 20, 1994; under examination in the Judicial Committee of the Chamber of Deputies, before submission to plenary debates.
 - reparatory measures for owners of housing dispossessed by nationalization after March 6, 1945 and which still exist;
 - restitution of one apartment provided it is occupied by its former owner or by his inheritants; compensation for other apartments, equivalent to a maximum of a 20-years median income;
 - the unrestituted apartments will be sold to the sitting tenants; the income derived from the sales will become a special fund, to be used to pay the compensations;
 - the protection of the present tenants is assured by extending over a period of five (5) years the current rental contracts.

IV. ON BUILDING AND PLANNING

A. Existing Legislation

1. The *Law for authorizing building permits and some measures concerning the construction of housing* (Legea privind autorizarea executării construcțiilor și unele măsuri privind realizarea locuințelor, No. 50/1991 — M.O. 163/1991):
 - procedures for granting the urban certificate and the building permit;
 - categories and types of urban and regional planning documents and plans, competence of approval;
 - sanctions and fines.
2. The *Ordinance for stimulating investments in public works and housing* (Ordonanță privind stimularea investițiilor pentru realizarea unor lucrări publice și construcții de locuințe, No. 19/1994 — M.O. 28/1994):
 - provisions to finalize the unfinished houses out of a fund created in 1993 and supplemented by annual allocations from the state budget;
 - access to first-time ownership by granting a lumpsum of 500,000 leis or 30% of the value established by contract for an apartment to: married couples under 30, disabled and handicapped persons, etc.
3. The *Ordinance concerning the quality of construction* (Ordonanța privind calitatea în construcții, No. 2/1994 — M.O. 18/1994):
 - defines a system of quality performance in the construction process.

B. Proposed Legislation

1. The *Regional and Urban Planning Law* (Legea amenajării teritoriului și urbanismului) under revision at the Ministry for Public Works and Regional Planning; to be finalized by the end of this year.
2. The *Housing Law* (Legea locuinței); a second draft has been produced by the Ministry for Public Works and Regional Planning on November 18, 1994; to be discussed with the Ministry of Finance and the Ministry of Justice.

NOTE: Romania has a CIVIL CODE adopted in 1865 (inspired from the French "Code of Napoleon"). It contains provisions (i.a.) on:

- REAL PROPERTY (Chapter I)
- PROPERTY RIGHTS (Book III, Titles II, III, IV)
- SALES, TENANCY, CONTRACTS (Book III, Titles V, VI, VII)
- MORTGAGES, FORECLOSURES, EVICTIONS (Book III, Titles XVIII, XIX)

ANNEX II

DONOR ASSISTANCE TO THE HOUSING SECTOR IN ROMANIA

PHARE — "Programme for the development of public administration in Romania"

The programme comprises four main components:

- Creation and consolidation of training facilities. There was a governmental plan for development of a network made up of five regional centres for local governments (Bucharest, Chy, Craiora, Sibni and Jasi). Unfortunately, the programme is over and the network was not established.
- Development of a local autonomy system based on changes in relationship between local councils, county councils, municipal utility companies (*regie autonome*). There were seminars and workshops addressed to local authorities and to municipal utility companies.
- Strengthening the capacity to cope with changes at local level. This component was correlated with EBRD project. "Municipal Utilities Development Programme" which consisted of the development of an investment project.
- Assistance in developing training materials and necessary facilities (correlated with first component). Thirty (30) participants were trained for 6-8 months in order to become the future trainers in the training centres.

USAID

Is providing technical assistance in three areas related to the development of local authorities. The effort focuses on practical suggestions that can be implemented within the existing legal and regulatory framework. The areas are:

- improving municipal financial performance
- improving infrastructure systems (water, sewage)
- computer system design strategy

In Braşov there also is a pilot project to establish condominium associations in privatized apartment buildings.

BRITISH COUNCIL

A seminar on "Management of local administration--the British experience and Romanian priorities" was organized together with the Federation of Mayors and the University of Birmingham in 1993. The main topics were:

- key problems in Romanian administration
- strategic management in British local public administration

- finances in local public administration
- management of services and human resources
- public participation

The workshops was attended by twenty (20) mayors.

WORLD BANK

Projects related to transport and health. The development of a project on cadaster and land registration system--which probably will start next year.

"Local Government Development Programme" addressed to municipalities to develop the skills of local authorities in maximizing the use of utilizing local resources and to strengthen local financial and administrative management.

A seminar on procurement procedures was organized in 1994 addressed to people working in this specific field.

EBRD

"Municipal Utilities Development Programme" will fund investments in water supply, sewage and metering in five cities. The project was approved by the Romanian Government and implementation will start in 1995. The second phase of the project will be developed in other eight (8) cities in beginning in 1996.

The EBRD organized specific workshops on procurement.

NCHS

National Centre for Human Settlements--is the Romanian "local point" for the United Nations Centre for Human Settlements (UNCHS-Habitat)—Nairobi. The Technical Secretariat is based in the Ministry of Public Works and Regional Planning. The Centre organized a series of international seminars and workshops related to human settlements:

- rent policies in transition countries in Europe
- training of trainers course for local public administration management to improve the quality of local administration
- workshops and seminars on cadaster and land registration system, organized with the EEC Committee for Human Settlements and the United Nations Centre for Human Settlement (UNCHS-Habitat).
- seminar on urban legislation, organized with Council of Europe, addressed to architects, lawyers, people working in local and central public administration.

The technical Secretariat started also a project on urban and housing indicators in a pilot city (Targorviște).

ANNEX III
RESIDENTIAL PROPERTY AND LAND PRICES
IN BUCHAREST